

Communicating Through COVID – Part III

Q2'20 Earnings Prep: *Setting the Foundation for Your Recovery*



**Advice & Counsel as You
Prepare Q2'20 Earnings
Communications**

**When Do We Turn
Financial Guidance
Back On?**

**Beware Selective
Disclosure in Today's
Rapidly Changing World**

Communicating Through COVID – Part III

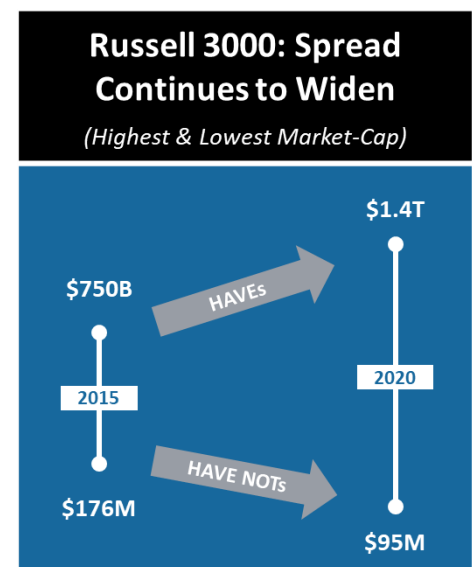
Q2'20 Earnings Prep: *Setting the Foundation for Your Recovery*

The Market Today...

The past few weeks and months have been marked by unprecedented events including a global pandemic, record unemployment, daily political acrimony, and an international dialogue on civil rights. It is a difficult time to both manage and own the investor communication platform for any publicly-traded company. If we had provided you with a list of those “black swan” events last year and asked you to predict where the market would be today, most of us would likely have started with down 50%. Yet, as we put pen to paper this week to provide our perspective on how management teams and IROs should navigate this impending earnings season, the NASDAQ just hit a new high.

We work hard every day to help our partnership clients think strategically and proactively about their IR programs, and strengthen their investment brands. Given today’s rapidly-changing environment, that has never been more important. However, this market has turned into what many see in our society - Haves and Have Nots. The Haves (tech, tech, and tech) have seen extreme multiple expansion, while the Have Nots (anything levered, most industrials, all energy and travel, etc.) have underperformed at rates not seen since the Great Recession of 2009. A timely example of this divergence was the recent rebalancing of the Russell 3000, which occurred in late June. During this process (see chart below), the largest 3000 public companies in the U.S. by market-cap are reweighted every year. Numerous index funds and passive strategies invest based on these weightings, so they are critical to supporting the daily float of thousands of publicly traded companies. This index covers over 95% of U.S. listed stocks and has seen extreme fluctuations over the last five years as both the top and the bottom ends of the range have shifted by nearly 50%. Effectively the Haves push even higher and the Have Nots fall even lower, and it appears to many (we hope) to be unsustainable.

This week most of us have begun to outline our second quarter investor messaging. It does not matter if you are a Have or a Have Not, this will be a critical quarter for all of us as gatekeepers of our investor communications. This earnings communication starts the rebuilding process for most companies in terms of restoring their fundamental performance, investment theses and eventually their valuations. Now is the time to set the foundation for the recovery in your “story as a stock.” Thus, our team has developed the following set of observations and broad counsel that we hope will help guide your internal process this quarter.

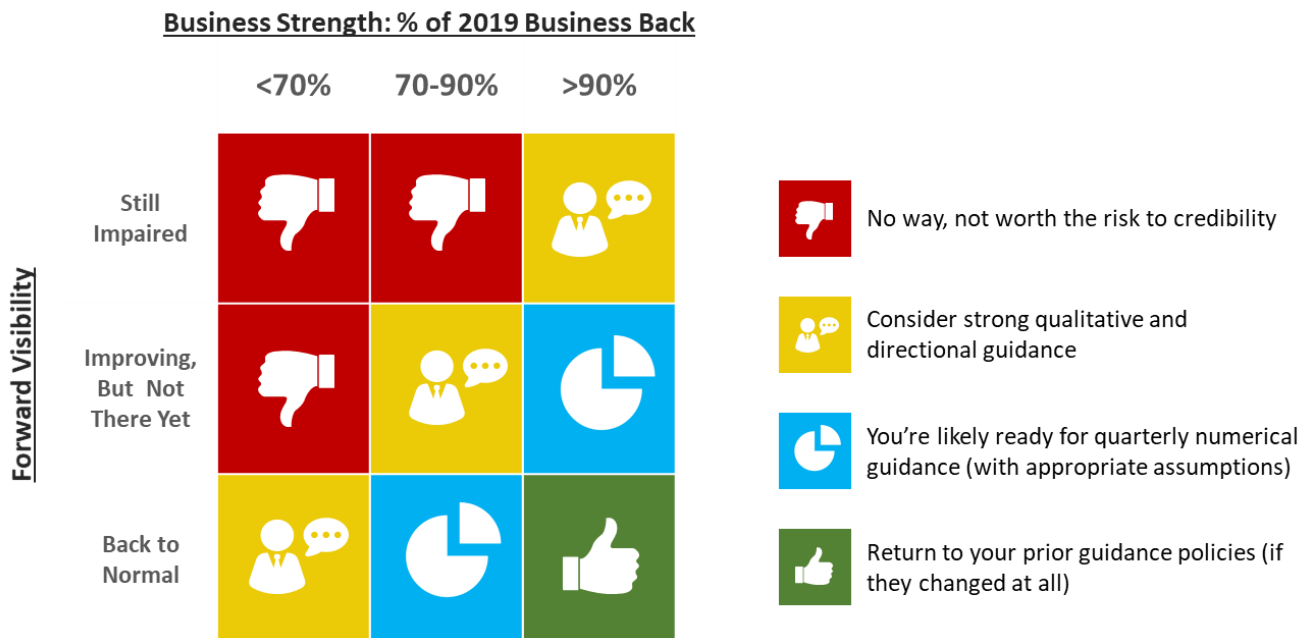


The Guidance Conundrum...

We are only a few days into the earnings cycle, and it is clear that guidance is a hot topic once again. No company wants to be an outlier when it comes to the suspension of guidance. While we have seen various conflicting statistics on how many companies suspended guidance last quarter (a recent publication stated roughly 50% of the S&P 500), we do not believe public companies need to rush back into the provision of quantitative guidance any time soon. To properly forecast your business and guide investors, you need to: 1) understand your current base of operations and utilization levels; and 2) have some perspective from your customers as to their future order patterns (be that contractual or relationship driven).

While some industries still have both of those variables firmly in place (tech, healthcare, etc.), many industries do not, and as we've all seen over the last few weeks with the resurgence of the virus, the situation remains fluid. The financial crisis of 2009 provides us with a solid guide. Most companies suspended guidance early in the year, and as they gained greater confidence in their utilization levels, balance sheets and forward visibility, they first reintroduced quarterly guidance. Then in 2010+, they shifted back to annual models.

We believe the same approach will hold in 2020/2021, assuming that the world continues to figure out how to navigate and ultimately defeat this pandemic. To help guide our clients and friends evaluate their guidance approach throughout the rest of the year, we developed this simple matrix. It is not a one-size-fits-all solution, but it should offer a way to think about when it will be appropriate to turn your guidance back on:



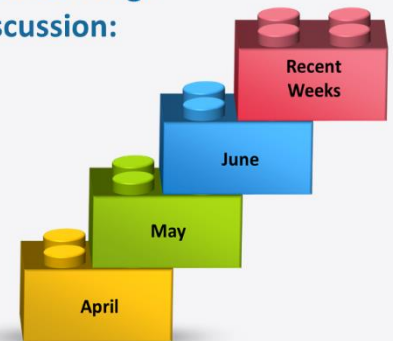
We believe that many of us are in the center box based on what we've observed throughout the second quarter. No matter where you lie, the buy-side will be expecting a more fulsome conversation this quarter, which we outline below.

Q2'20 Earnings Considerations/Priorities...

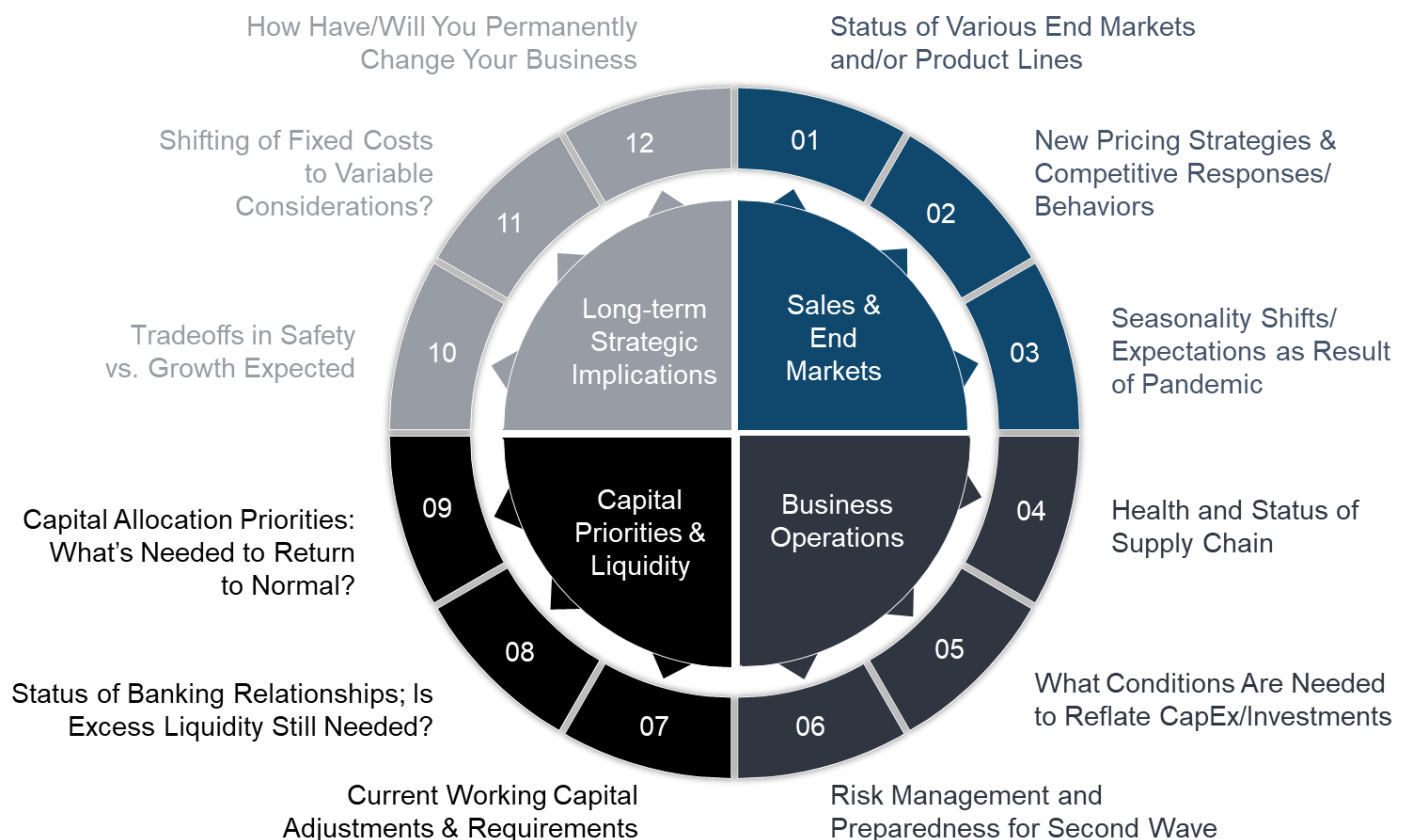
Irrespective of your guidance decision, or whether you are a HAVE or HAVE NOT company today, the second quarter earnings cycle will be a critical foundation-building communication for all public companies. If your business greatly benefited from this situation, you likely need to corral expectations and make sure that sell-side analysts do not get ahead of you for the remainder of the year. But if you are like the rest of the world, you may have seen a sizeable and negative impact to both your revenue and earnings stream this quarter. Thus, you will need to provide a strong business update that helps to both inform and educate your investors on your path forward and your business priorities. The following summarizes the advice we offered to a handful of our clients so far this quarter:

- α Framing the Quarter:** During the last earnings cycle, we recommended that our clients and friends frame their first quarter performance by addressing three time increments (first 10 weeks of the quarter pre-COVID, the last two weeks as the pandemic started, and the first few weeks of the second quarter). From our conversations across our client base this period, which spans nearly every major industry in the U.S., we generally heard that most companies saw a trough in their performance during April, May, or June. Some businesses may not have troughed yet, but it seems clear that despite historical business seasonality, there were some clear distinctions in monthly performance across the quarter. Thus, we'd like to suggest again that most companies break from the norm and offer a little more transparency this quarter. By framing your discussion around the pace of your month-to-month performance (and hopefully building momentum), we believe that many companies will be able to start building the foundation for their recovery.
- α Qualitative Guidance Needed:** Managing the sell-side without numerical guidance is difficult. The sell-side today is underpaid and overworked as they continue to adapt their business model to the new environment. And the buy-side will demand a much deeper dive into the pieces of your business that are working, as well as those that are not, and what needs to happen for everything to return to historical business norms. To help both the buy- and the sell-side, we believe all companies need to find a way - beyond their monthly performance - to speak to the overall health and functionality of pieces of the business. So far we've recommended that companies provide a deeper dive either around their core end markets or product/segment lines to frame the discussion for several of our partners. Framing up the health of your end markets or product lines in comparison to historical performance and/or seasonality, or in relation to GDP, could be a highly effective way to build a discussion and educate your investors and analysts. But you also need to be forward thinking and provide some context for how you believe the second half of the year may play out. This doesn't mean you need to give guidance per se, but you will need to be strategic in how you qualitatively guide the Street in your prepared remarks.

Consider "three and a half" time periods to frame your earnings discussion:



- α List Your Assumptions:** If you choose to provide either qualitative or quantitative guidance, remember that it is critical to outline the assumptions that underline your expectations. For example, if you have built your projections and directional guidance around the assumption that any future new wave of the pandemic will not lead to a countrywide shut down, you need to clearly articulate that as one of your underlying assumptions. Given the uncertain nature of the current situation and the lack of a historical perspective on how this might play out for businesses in today's world, investors will need to understand your general observations and assumptions for any expectation you outline this quarter.
- α Topics to Prepare For:** From our discussion with the buy-side this quarter, we've found that most investors understood that their holdings were dealing with highly complex, multi-stakeholder decisions at the end of the first quarter, and were fairly patient in terms of their disclosure expectations. As we just outlined, we do not believe they will be as understanding this quarter. Rather, they will expect a significantly more transparent review of the entire business and how it's functioning. Thus, we ran a firmwide query against the log of questions we received from investors as the quarter closed, and offer this list as a strong starting point to consider as you create your second quarter communication and prepare for the Q&A portion of the upcoming earnings call:



- α Stakeholder Narratives Still Important:** The key focus of our last paper was on the near-term importance of having a broader stakeholder narrative and perspective in IR communications. We were highly encouraged to see that most companies took the time to acknowledge their employees' commitment and dedication in the face of widespread uncertainty. We still believe that message remains important and necessary; however, we do not believe that companies need to dedicate 20% of their script to stakeholder messaging again this quarter. We simply suggest that most companies continue to recognize the exceptional effort and dedication of their employees as is appropriate.
- α Don't Force a Diversity Discussion Unless it's Already a Part of Your Culture:** As a part of future ESG communication, we would expect to see a growing focus on diversity programs, given the inspiring discussion that has taken place over the last few months. For those companies that have truly embraced and instituted diversity programs in the past, we believe investors will want to hear a few basics on those programs. For those that have not implemented formal programs at this time, we suggest you do not force a thinner discussion around a commitment to diversity this quarter. As you build those programs and update the "social" component of your ESG related materials, the opportunity will present itself naturally at a later date. That said, we are working closely with our partners to develop and own proper ESG narratives moving forward.
- α Sell! Sell! Sell!** With the dislocation in market multiples vs. fundamentals, we cannot stress enough how critical it is that every company reinforce its core investment thesis again this quarter. Do not fall into the old quarterly trap of talking only to your sell-side and answering "what's your tax rate" type questions. Your long-term investors need a reason to hold and add to their position, and you do not need guidance to sell your long-term investment thesis and strategic plan to drive long-term shareholder value. This relates to both the Haves, who need to justify their multiple and the sustainability of their growth platforms, as well as the Have Nots, who need to eliminate risk concerns in their investor's minds and build a case that their stock price is undervalued.
- α A Timeline to Get You Started:** Last quarter we heard from many of you that the general outline we provided helped to provide a place to start as you framed your own flow for the first quarter. Thus, in the Appendix, our team crafted another outline for the second quarter that we've shared with a few clients to get them started on building their earnings scripts. By no means is this outline going to fit every company, but given the uniqueness of the times, it may give you some ideas to consider. Click here to jump to the outline: [General "Big Picture" Q2 Earnings Outline](#).

When is it Appropriate to Talk Valuation?

Another question we often get (especially in current times when some businesses are trading at distressed levels when they are not truly distressed) is: “When is it appropriate for a company to offer its perspective on its own valuation?” Some investors will argue that is their job, not the company’s, but we believe there are select times when it is appropriate to “help” investors with valuation. The easy examples include:

1. **Business Transformation:** Our senior team has helped numerous businesses with transformations out of one industry and into another. In many of those situations, it can be beneficial to outline a new prospective peer group (whose valuations are higher than the business you’re exiting) in an effort to support your strategy.
2. **Investor Days:** We often think that a valuation discussion is highly applicable and fair game as companies outline their new 3-to-5-year plan at Investor Day events. A new strategy and set of KPIs can often lend support to an eventual revaluation.
3. **Legacy Overhangs:** Lastly, as companies work through legacy overhangs like excess leverage, regulatory change, etc., they often need to make an overt case that their business has materially changed and thus the valuation should follow.

So how bold should corporate America be this earnings cycle, and is it appropriate to drive your own discussion of your undervaluation during this next earnings call? To borrow a phrase from all the attorneys we know, “it depends.” With share repurchases generally off the table, and with the need to continue to stockpile cash and protect balance sheets, it is hard for companies to put their money where their mouth is. That said, we’ve seen a number of companies trading at truly distressed levels, and in select cases, where a company has a clear sense of its recovery and go-forward visibility, there will likely be subtle opportunities to show that you believe your stock is materially undervalued. Obviously, the best way to support that discussion will be with strong insider purchases from both the management team and the board.

Q2’20 General IR Observations...

None of us have navigated a pandemic in our careers, but there were a handful of IR activities and events that caught our attention this quarter. Some were positive developments, but a handful raised a few red flags for our team as well. A few reminders for your go forward IR program:

1. **Selective Disclosure Risks Are Running High:** One of the things we often read with trepidation are sell-side reports that come out immediately following a company's participation at an analyst conference or non-deal roadshow (NDR). They are often entitled, "Notes from the Road with XYZ", and they serve as a Regulation FD scorecard every time. If we're all doing our jobs correctly, we have been thoughtful and proactive with our earnings communications each quarter, so that when we present at a conference or NDR a few weeks later, we've disseminated all critical and material information into the public domain. This is why the earnings process is so critical every quarter, and it's why you need experienced in-house or external resources helping you think strategically and with some foresight.

"...we recommended that many our clients publish an intra-quarter press release and presentation before they went on the road."

However, the COVID pandemic introduced tremendous challenges this quarter as the three-to-four weeks between many companies' first quarter earnings communication and any subsequent event participation saw rapidly changing business conditions. Many businesses were operating at a fraction of their historical levels when first quarter earnings were discussed, but then saw business conditions start to improve dramatically throughout the quarter. This is why we recommended that many our clients publish an intra-quarter press release and presentation before they went on the road, which we often titled, "XYZ Provides Business Update." This gave us multiple bites at the apple to build positive momentum and set up our recovery messaging, but it also protected us from selective disclosure.

However, as we reviewed numerous sell-side reports this quarter that came out after these events, we read things like, "Company X's plants operating at 75% capacity", "Company Y's European operations reopen" or "Company Z outlines improved liquidity and cash position over the last month at our conference." Some of these business updates appeared to us to have required a corporate disclosure (8K, press release, presentation, or at least a webcast at the event). As we look forward to the progression from the second to the third quarter, we hope to see continued improving market conditions, which may create a similar dynamic. As a result, we highly encourage public companies to be more thoughtful about: 1) ensuring that their second quarter communication informs their next few months of communication needs; 2) controlling the message when the business is changing rapidly and using your own disclosure tools (press release and/or presentation, ideally) to give all investors information in a timely fashion; and 3) making sure your group presentations at conferences are webcasted.

2. **New Technology Brings New Risks:** Another interesting phenomenon this quarter was the sheer scope and acceptance of virtual conferences and NDRs. These outlets allowed numerous companies to remain visible to Wall Street and generally were professionally done. However, we did see a handful of companies that thought they were in a one-on-one or small group meeting, but that event was either attended by multiple firms (in some cases that had not registered for the meeting) or worse, the

presentation was recorded without the company's knowledge and other investors and audiences had an opportunity to hear it or read the transcript later.

As IR professionals, there are things we might say in a one-on-one situation that we would not want to publicly say. That reference obviously does not involve material information, but it may involve information that is sensitive to certain non-investor stakeholders. For example, in a public earnings call, you might be careful how you discuss layoffs and benefit reductions because your employees are listening, but in a one-on-one investor meeting a CEO/CFO/IRO would likely be more direct in how critical those cost containment efforts are for the business. Another situation might involve the way a company talks about its pricing strategy, as customers are listening to the earnings call and might misinterpret a margin expansion strategy as price gouging, while investors obviously want to discuss how their holdings are focused on maximizing margins.

Our advice is to hold your sell-side/corporate access person more accountable. Make sure it is clear who will be on every call, what is being recorded (or worse transcribed), and own the process.

"Today, one wrong word in a social media post can ignite a media storm and an organized boycott of a Company's product within hours."

- 3. Social Media & IR:** We have counseled our clients for years that social media is a tool that can reinforce your IR messages, but should never be a platform you use to actually disclose new important information. This has been learned the hard way by a select few CEO bloggers and Twitter posters who have gotten themselves into hot water with improper disclosures. We've personally seen companies look to change their technological perception with investors by using social media during earnings calls (example: to highlight pictures of new product), only to receive investor backlash by irate shareholders who could not get the information in a timely fashion.

We point this out because this quarter saw a true acceleration in "word" dissecting across the media spectrum. Today, one wrong word in a social media post can ignite a media storm and an organized boycott of a Company's products or services within hours. Therefore, we cannot emphasize enough how dangerous these platforms can be for the leaders of companies today. As IR professionals we need to ensure that our C-suite knows that their personal social media platforms are being watched 24/7, as are our own, and this new hypersensitive world we live in is not going away anytime soon.

- 4. IR Trends Accelerated:** In our previous [COVID II paper](#) (April 8, 2020) we predicted eight core IR program shifts that we expected to accelerate over the next few years. Well, in a handful of cases these trends moved even faster than we thought. A quick update on these follows:

Topic	April Prediction	Q2'20 Observation
Virtual is Great	CEO/CFOs are going to learn to love virtual meetings and no-travel NDRs	<ul style="list-style-type: none"> ✓ CEOs and CFOs raved about virtual events throughout May/June and view them as huge time savers and a more efficient way to interact with investors.
Sell-side Challenges	Virtualization will further harm sell-side's model and shrink the industry	<ul style="list-style-type: none"> ✓ Buckingham Research, a great niche shop, officially closed its doors in late April. ✓ Another firm or two moved their sell-side to an independent model (i.e. they pay themselves now). ✓ And we have seen another 15+ former sell-siders take in-house IR positions since February.
Run on Investor Day Venues	Q4 sold-out and 2021 will bring numerous events, given the need to reset the long-term vision	<ul style="list-style-type: none"> ✓ At least one of the Exchanges is sold out through the end of the fourth quarter, and the first half of 2021 is filling up fast as I-day events are pushed forward. ✓ We are also seeing a number of companies move forward with virtual I-days and we have helped support several so far in 2020.
ESG Acceleration	Stakeholder focus should bring lagging companies into at least a "me too" ESG position	<ul style="list-style-type: none"> ✓ While some ESG work has been temporarily suspended with cost containment efforts, recent activist and social media campaigns point to an even faster pace of change as we enter the second half the year. ✓ Further, while U.S. assets specifically focused on ESG/Sustainability remain small, most ESG funds radically outperformed their non-ESG peers year-to-date given their exposure to technology investments that led the stock market's recovery. As a result, we expect to see significant inflows into sustainability-focused ETFs/Funds over the next few years.
Smarter Targeting	Many SMID-cap companies will have to rebuild their entire shareholder base	<ul style="list-style-type: none"> ✓ While the 6/30 13F information is just flowing in, it's clear that many small and mid-cap companies saw significant churn in their shareholder bases in the second quarter. ✓ It's also worth noting that we heard from several buy-siders that they were burned out with virtual events by the end of June, and thus a smarter, targeted approach will be required in time.

<i>Topic</i>	<i>April Prediction</i>	<i>Q2'20 Observation</i>
<i>More Open Conference Calls</i>	Fewer sell-siders = lower Q&A participation; SMID-caps may need to open queue to buy-side	✓ Still somewhat TBD, but the sell-side's challenges clearly accelerated during the quarter, and small-caps continue to be underfollowed.
<i>Debt IR Matters</i>	Debtholder communications is often an afterthought, but distress brings new perspectives	✓ Calls from debt investors were up roughly 50% across our client base this quarter, and there is no doubt that debt holders need to be top-of-mind as the second quarter earnings communication is prepared.
<i>Stronger IR Functions</i>	Crisis and a transformed Wall Street will require more strategic and experienced IR capabilities	✓ IRO job stability through this crisis has been outstanding ✓ And our team welcomed three new clients last quarter and replaced incumbent PR/IR firms as our new clients needed a more strategic approach to their future IR efforts (please forgive the shameless plug).

Conclusions: 2H'20 IR Imperatives

While the first half of 2020 was one of the toughest of our careers as financial communicators, it is hard to officially say the second half will bring new clarity. We will see what is sure to be another ugly election cycle, additional steps forward and backward in the global fight against COVID-19, and further calls for an acceleration in the pace of social change.

As a result, these next few quarters will continue to test us as IR professionals, but our investors need us to rise to the challenge. We need to continue to live by these four principles: 1) strategically think as we execute and position our investor messaging; 2) stay visible to both our current and prospective investors and analysts; 3) remain proactive vs. reactive in everything that we do; and 4) always stay long-term focused as we build our programs.

We wish you much success as you tackle the challenges of communicating this quarter. As always, we are happy to offer you counsel and advice on ways to better build your company's investment brand in the future.

Appendix A: General “Big Picture” Q2 Earnings Outline

CEO Opening:
<ul style="list-style-type: none"> • State of the Union <ul style="list-style-type: none"> ○ Briefly acknowledge employee efforts; quarter marked by unprecedented events: global pandemic/record unemployment/destructive weather events across N.A./international dialogue on civil rights, etc. ○ Context of performance to date: 1) Business strength as % of pre-COVID (qualitative perspective); 2) Forward visibility today; 3) Business/Operational update – was there a trough in performance during April, May or June, status today, etc.; 3) Begin to frame your discussion around the pace of your month-to-month performance and any foundation to a recovery.
<ul style="list-style-type: none"> • Actions Taken <ul style="list-style-type: none"> ○ Update on action taken to fortify business, protect assets, cost containment, etc. ○ Offer proof points on how these actions have been effective to date.
<ul style="list-style-type: none"> • Outline Components of the Business that are Working <ul style="list-style-type: none"> ○ Discuss % of business that’s still working, timeframes to reopening others based on what you know today. ○ Where possible take credit for conservative balance sheets, liquidity access, ability to bridge the gap.
<ul style="list-style-type: none"> • Business/Operational Deeper Dive (Get ahead of likely questions) <ul style="list-style-type: none"> ○ Status update on end markets, product lines, distribution, etc. ○ Pricing strategies, competitive responses, behaviors, reaction, etc. ○ Seasonality shifts and expectations in this environment. ○ Health/status of supply chain. ○ Viewpoint on CapEx/investments into business (near-term). ○ Plans and lessons learned should we see a massive resurgence in key markets.
<ul style="list-style-type: none"> • Confidence/Leadership <ul style="list-style-type: none"> ○ Highlight areas of resiliency in the business, among the team, etc. ○ Reassure employees, customers, suppliers, and others about company’s ability to navigate this crisis.
CFO Portion:
<ul style="list-style-type: none"> • Q2 Performance Review <ul style="list-style-type: none"> ○ Walk down Income Statement but keep to key metrics and drivers. ○ If possible, provide some anecdotes of performance over the duration of COVID and specifically Q2.
<ul style="list-style-type: none"> • Cost Discussion & Plans <ul style="list-style-type: none"> ○ Fixed vs. variable cost status, cost containment efforts, CapEx curtailments, etc. ○ COVID-related costs, PPE, and safety equipment, etc. ○ Opportunities still available under various scenarios.
<ul style="list-style-type: none"> • Balance Sheet Status and Strategy <ul style="list-style-type: none"> ○ Liquidity/Cash Status and Strategy: Cash preservation strategies, working capital plans. ○ Debt structure and status: looming maturities/refinancing. ○ Other actions taken to fortify business: drawing on LOC, access to debt markets, etc.

- Covenant review, anecdotal banker conversations (express partnerships where possible)
- Capital allocation strategy in current environment.

- **Guidance Discussion (situational)**

- Quantitative or qualitative, you'll need to outline your visibility in some form or fashion.
- Demonstrate a clear pulse on recent performance and clearly indicate the level of visibility you currently have.
- Provide deeper assumptions/caveats to any qualitative or quantitative guidance.
- No extra credit for guessing in this environment.

CEO Closing:

- **Outline Short-term Strategic Priorities for Q3**

- Talk confidently to business resilience, optionality to ride out likely scenarios, etc.
- Offer/reinforce outlook that fits best (qualitative or quantitative).

- **Core Business/Investment Appeals (long-term)**

- Recap of core tenets of the company and the differentiators that support resiliency.
- Highlight any proof points of resiliency to date.
- Reminders of what you are not (address misperceptions you know exist if needed).

- **Bridge to New Normal Thoughts**

- How will/has the company rebound(ed) under various market recoveries.



Alpha IR Group

About Alpha IR Group:

The Alpha IR Group is a holistic investor relations and transactions/crisis consulting firm that protects, enhances and builds the investment brands of America's leading companies. We bring over 100 years of collective Wall Street, financial, and large agency experience, while retaining a small company, holistic approach. With deep sector expertise and senior-driven programs, Alpha IR is the right choice to manage our clients' reputations, credibility, and ultimately, their valuation. For more information please see www.alpha-ir.com.



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